Foreign Aid in Equatorial Guinea: Macroeconomic Features and Future Challenges

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Abstract:

The paper carries out a deep case study of the international aid that Equatorial Guinea receives. This is an extremely interesting country because, not being a failed state, it presents very low indexes in institutional quality. Its oil richness, which began to be exploited by foreign investors in 1996, has meant a structural change of extraordinary interest without the traditional effects of Dutch disease. While in 1989 the country financed 54% of its GDP with ODA, in 1996 this ratio represented only 22% and nowadays barely reaches 0.5% thanks to the enormous growth of foreign investment. The article analyses empirically the predictability of the ODA flows -mainly composed of Spanish funds-, their stability, cyclical behaviour and stabilizing effect on the GDP. The main findings of the study are that the ODA has been a hardly predictable, relatively stable, counter-cyclical flow and that it does have a stabilizing effect on its product. The FDI (Direct Foreign Investment), on the other hand is much more volatile and pro-cyclical, although it shares the stabilizing effect of the ODA. For every million dollars of the FDI, GDP grew 0.1%. Development aid, on the contrary, doesn't have a statistically significant impact if we consider the time period 1985-2006. But it does in 1985-1995. Every additional million dollars of ODA made the GDP grow 1.3%. The sectoral analysis of ODA revealed that more than 80% of Spanish aid has been invested in social services, especially education (46%) and healthcare (26%), carried out by two NGOs that somehow became accomplices of the social underdevelopment that the Guinean government maintains since its independence. The article concludes with some ideas on how to improve the quality of Spanish ODA, especially proposing a deadline for the aid and a result-based conditionality, like the Aid Efficiency Agenda of Accra suggests.

Key words: development aid, Dutch disease, stabilization, evaluation, results, volatility.

JEL: F35

A slum in Equatorial Guinea.

Presidential palace of Equatorial Guinea.

1. INTRODUCTION.

The case study of Equatorial Guinea is extremely interesting. Although we can't find the most harmful effects of political instability that characterise a failed state, it is a clearly weak and non-democratic state. As we will see in the case study, the country presents high levels of corruption and very low features in institutional quality indexes. The abundance in oil reserves which began to be exploited by foreign investors in 1996 has lead to an extraordinarily interesting structural change, in which we don't find the traditional effects of Dutch disease. In 1989 the ratio ODA/GDP reached 54%. In 1996 it represented only 22% and nowadays it barely reaches 0.5% thanks to the huge growth of foreign investment, especially american. This investment extracts the oil wealth found in Equatorial Guinea's territorial sea but hardly leaves any observable benefits to the local population. Similar to the political effects of the 'curse of natural resources', the leading oligarchy of the country uses this income as if it were their property and they take it for their own benefit with almost no redistribution among the citizens. The basic public services are still given and financed by the old motherland, Spain, through the Official Development Aid (ODA). So we see that Equatorial Guinea presents many peculiar aspects that have been studied in development literature.

On one hand, we can't blame the oil generated income for the bad government of the country because it already existed before the oil exploitation began. The population hasn't had a truly democratic and legitimate government almost since its independence from Spain in 1968.

At the same time, the size of GDP and GDP per capita has been growing exponentially since 1996, when the massive oil exploitation began. Equatorial Guinea clearly reflects the limitations that the GDP per capita has as an indicator of well-being. While the real GDP per capita has grown ten times its former size between 1996 and 2005, the material and human poverty continues to be the main attribute of most of the country's half million inhabitants. The inequality between the opulence of the leading clan and the citizens is outraging (although its measures have never been reliable).

In third place, the FDI has become the main financing flow of the Guinean product, replacing the ODA. The relationship between these two flows hasn't been studied very much, by which the empirical analysis of this case study is ground-breaking.

We can also see that Equatorial Guinea gives Spain many leadership opportunities as an international donor, but also huge challenges regarding the quality and efficiency of the ODA. Until now it has been aimed towards basic education and healthcare in the country and carried out mainly by NGOs. But the perpetuation in time and without deadline of these financial supports, in some way makes the aid and NGOs accomplices of the country's bad government. It's easy for the administration to see the ODA as the opportunity cost of a more equal reallocation of the oil income, a higher fiscal pressure and a more responsible commitment to the quality and maintenance of the most basic public services like education and healthcare.

Spain must find alternative ways to the current managing of the ODA in Equatorial Guinea.

The paper's structure is the following: The second section describes briefly the low institutional quality of the country and its economic structure. The third section carries out an empirical analysis of the predictability, stability, procyclicality and stabilizing impact of the ODA and FDI in the time period 1985-2006. The fourth section deeply analyses the ODA in Equatorial Guinea and the lead role that Spain has, paying

attention to the volatility in the aid flow and its sectoral stucture, especially focusing on education and healthcare. The fifth section contains suggestions for the Spanish ODA to increase its quality and efficiency. The sixth section summarises the main conclusions of the study.

2. STYLIZED FEATURES OF THE COUNTRY.

2.1. POLITICAL SITUATION

The political situation in Equatorial Guinea can hardly be considered democratic. It's more like a dictatorship inserted in a disorganized society (Roig 1996). The country's independence from Spain was acknowledged in October 12th 1968, during the government of Francisco Macías Nguema. He established a very hard dictatorship, after killing all of his opponents, and proclaimed himself president for life in 1972. He was overthrown on August 3rd 1979 by his nephew Teodoro Obiang Nguema who used the paradoxical slogan of "*coup de liberté*". Obiang has won the past five elections that take place every seven years (the last one on November 29th 2009). The electoral victories have been so demolishing that currently 99% of the Congress is composed by members of the only party in the dictatorship, the Democratic Party for Equatorial Guinea (PDEG). The remaining 1% is held by Convergence for a Social Democracy (CPDS) whose leader, Plácido Micó, declared that the electoral process was a fraud. The existing Government-in-exile was created in 2003 and is lead from Spain by Severo Moto, leader of the Equatorial Guinea Progress Party (PPGE). In March 2004 a group of South-African mercenaries, among which Margaret Thatcher's son was found, attempted a coup d'état. They were detained in Zimbabwe and the attempt failed (Human Right Watch 2009 a).

Ever since Teodoro Obiang took charge of the government there have been numerous political murders and missing people, as well as 'false' trials with no procedural warranties. The judicial power is not independent (The Freedom House 2009; Gorozpe 2006; Roig 1996). The reports of International Amnesty (2008, 2009 a,b) and other independent organisms inform us about a shocking truth regarding arbitrary detentions, horrible tortures, beatings and murders, even to exiled opposing leaders. The corruption in Equatorial Guinea is systemic (Mbo Oda 2010; Human Rights Watch 2009 a,b; United States Senate 2004; Roig 1996). International Transparency sets the country in position 171 of 179 and assures that corruption is rampant, especially in oil investments and the negotiation of mercantile contracts.

The organization *The Freedom House* qualifies Equatorial Guinea as a non-free country, having the worst mark (a 7) both in political freedom and civil rights. The refusal to hand out visas and the tortures in prisons are permanently denounced.

Governance indicators.

In the ranking of 'State Weakness in Developing Countries', carried out by Rice & Patrick (2008) which orders 141 countries from weakest to strongest, Equatorial Guinea was placed in position 25 within the first quintile with an aggregate value of 4.77 over 10. The first quintile contains the weakest 28 countries in the world, in an index that synthesizes five components. The economic situation and GDP per cápita, in which

Equatorial Guinea obtains marks more suitable for the highest quintile: 7.51 over 10 in 'economic situation' with a GDP per capita equals to 8.250 dollars. In the 'security' component it obtains 7.95 points which falls in the third quintile in terms of security. The worst two components are 'social welfare' in which it gets 1.91 points and 'politics' with 1.73 points over 10. Both indicators are in the lowest quintile of the whole sample.

The Heritage Foundation elaborates the index of economic freedom and has ranked Equatorial Guinea in position 151 of 179 (for 2010), within the group of 'repressed' countries and with 48.6 points over 100. This means a loss of 2.7 points with respect to 2009. The components of the 10 freedoms that the index considers are showed below:

Table 1. Components of the Index of Economic Freedom 2010.

Equatorial Guinea's Value	COMPONENT	Average of 171 countries	Equatorial Guinea's Value	COMPONENT	Average of 171 countries
44.8	Business Freedom	64.6	20.0	Investment Freedom	49.0
58.9	Trade Freedom	74.2	40.0	Financial Freedom	48.5
75.5	Fiscal Freedom	75.4	20.0	Property Rights	43.8
83.9	Government Spending	65.0	17.0	Freedom from Corruption	40.5
80.9	Monetary Freedom	70.6	44.8	Labour Freedom	62.1

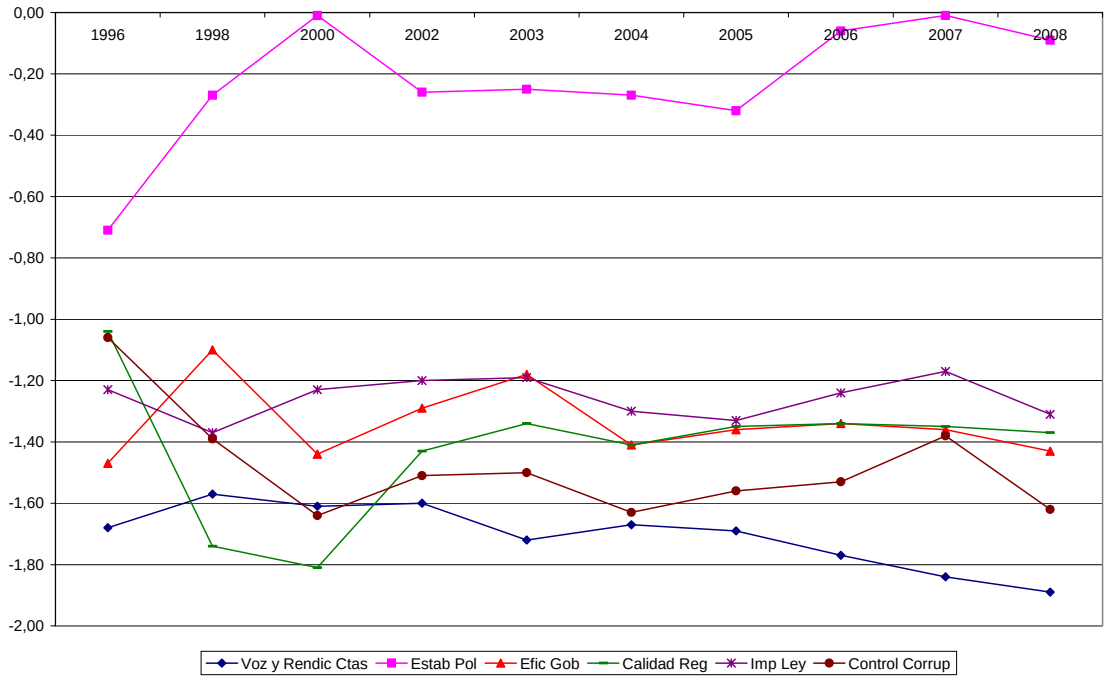
Source: http://www.heritage.org/index/Country/EquatorialGuinea.

As we can see in the table, only public expenditure and monetary and fiscal freedom are above the sample mean. In 2010, 8 of the 10 indicators got a worse mark than that of the year before (the only two exceptions were monetary and fiscal freedom that stayed the same).

All the governance indicators put together by Kaufmann et al (2009) show bad results. The ratings are in the worst decile when compared with the rest of the countries, except for political stability which is in the second worst quartile. As is shown in Graph 1, in 2008 five of the indicators were below -1.3[1] taking the lowest values in Voice and Accountability and Control of Corruption (position 198 of the 202 countries with data, ordered from best to worst).

[1] The governance indicators are ranged between [-2.5;+2.5], being -2.5 the minimum value. The exact values for 2008, with the standard error in brackets were: Voice and Accountability -1,89 (0,16); Political Stability -0,09 (0,25); Government Effectiveness -1,43 (0,22); Regulatory Quality -1,37 (0,18); Rule of Law -1,31 (0,17); Control of Corruption -1,62 (0,21).

Graph 1. Governance Indicators in Equatorial Guinea: 1996-2008.



Source: Kaufmann et al (2009).

In the ranking of national risk elaborated by *Institutional Investor* Equatorial Guinea is in position 113 out of 178 with 29.7 points. In the Index of economic freedom (developed by *The Heritage Foundation*) it has also went down from position 133 in 2006 to position 140 out of 179 in 2009. The country also occupies the last positions in the ranking made in the report *Doing Business* of the World Bank, where it holds position 170 of 183 in 2009. Among the indicators included in this report we can find some in the lowest quartile, such as 'days needed to start a business' (136, in contrast with 49.6 in Sub-Saharian Africa and 21.1 in high income countries in which Equatorial Guinea is included) and 'number of procedures to start one' (20, opposed to 10 in Sub-Saharian Africa and 6.9 in high income countries). The trend in these last years has been worsening in some indicators like 'registering property', 'getting credit', 'protecting investors'. At the same time, it holds the last place among the 183 countries in 'closing a business'.

An additional fact of the lack of institutional transparency is Equatorial Guinea's incapacity to comply with the validation conditions required by the EITI *(Extractive Industries Transparency Initiative).* On April 29th 2010, EITI's chairman of the board, Peter Eigen announced officially that there would be no extending of the validation period petitioned one month before by president Obiang (EITI 2010).

Summarising, Equatorial Guinea is one of the worst countries in the world regarding juridical and institutional security to make business, being qualified as 'criminal state' (Wood 2004), characterised by a high level of corruption and the absence of accountability and involvement of the civil society in the decisions that affect them. In Equatorial Guinea we find almost perfectly the structure of incentives for a dictator to stay in power that Collier (2009) exposed, along with electoral manipulation and the use of foreign aid for egocentrical usufruct.

2.2 ECONOMIC AND SOCIAL SITUATION.

The statistical data on Equatorial Guinea is scarce and not very reliable. For example, the estimates on population vary from 659,197 inhabitants in 2008 (World Bank, *World Development Indicators*), to 599.760 (PWT 6.3); or 633.441 en 2009 (CIA 2009 World Factbook) against the official census of 2001 that announced 1.014.999 inhabitants.

The Human Development Report 2009 places Equatorial Guinea in rank 118 of 182, with an HDI (Human Development Index) of 0.719 (for 2007) which places it in the high zone of medium human development. Its life expectancy at birth is 49.9 years, the literacy ratio in adults is 87%, the combined ratio of school enrolment is 62% and income per capita in Purchasing Power Parity (PPP) 30.627[2]. Equatorial Guinea is the country with greatest difference in the development indicator, if we compare its rank in the HDI with the rank it would take if we only took its GDP per capita into account (90 positions higher). In fact, the values for income per capita in the countries immediately above and below in the HDI ranking are extremely lower: the one above is Moldavia and its GDP per capita is 2.551 dollars, and the one below, Uzbekistan, has a GDP per capita of 2.425 dollars.

Equatorial Guinea's emigration rate is 14.5% being the main destinations other African countries. Posee una tasa de emigración del 14.5% siendo otros países africanos los principales destinos. It is estimated that in 2005 barely 1% of the population (5.800 inhabitants) were immigrants, coming mainly from neighbour countries like Cameroon, Gabon or Nigeria.

The fertility rate has varied slightly between 1990-95 (5.9 children per woman) and 2005-2010 (5.4 children).

The Human Poverty Index (HPI-1) takes value 31.9 and places the country in rank 98 of 135. Of the whole population of Equatorial Guinea, 34.5% wouldn't pass the 40 years of life expectancy at birth, 13% is illiterate, 57% doesn't have access to clean water and 19% of the children younger than five have malnutrition. There aren't periodical surveys providing information about the population in extreme poverty (less than 1.25$ a day), or the levels of inequality of income (Gini index or others[3]).

The Gender Development Index places the country in position 102 (taking value 0.7) remarking the great difference between the income per capita of men (45.418 dollars PPP) and women (16.161 dollars PPP). Only 6% of the seats in the Congress are occupied by women, and only 14% of the jobs in the ministries.

The data on military expense is very scarce. The SIPRI data base (2009) only contains data for the period 1994-95. In 1995 the military expense reached 5.5 million constant

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[2] Spain's is 31.560 dollars CCP taking position 15 in the HDI ranking and 27 in the GDP per capita. Equatorial Guinea is, therefore, between Spain and Italy in the GDP per capita world ranking.

[3] Neither the World Bank data base (Povcalnet) nor the UNU-WIDER's (WIID2c) provide any information regarding inequality in Equatorial Guinea.

2005 dollars, which is 2.1% of the GDP. The estimation for 2006 (CIA 2009) is 0.1% of the GDP.

The economic evolution of the real product per capita is marked by the oil extraction carried out by American firms since 1996. Nowadays, the estimated oil production is 359.220 barrels a day, all of it *off-shore* (CIA 2009), which makes Equatorial Guinea the fourth South-African producer (after Nigeria, Angola and Sudan) and the 35th in the world. At the same time it's the 45th producer of Natural Gas with a total volume of 6.670 million cubic metres in 2009. Oil and gas constitute close to 95% of the government's income and almost 99% of the country's exports (World Bank 2009). Due to the fact that its economy is extraverted and dependent on the petrol production, its income is attached to the volatile price of oil. This explains the bad economic activity in 2009, with a 1.8% decrease of the GDP (CIA 2009).

Equatorial Guinea could turn out to be a country affected by the so called 'Dutch disease" effect (Basedau & Lacher 2006; McSharry 2006; Campos 2010). Nevertheless, authors such as Toto (2008) do not support this hypothesis for Equatorial Guinea. The small size of the manufacturing sector (2% of the GDP according to Toto 2008:16) and the primary sector (the traditional tradable goods have been cocoa, wood and coffee), would prevent it from being negatively affected by the Dutch disease because the entrance of currency provided by the sale of oil and the consequent appreciation of the exchange rate don't end up in the financial system (they are captured by the political elite) and don't emphasize the price raise[4]. In contrast, Toto (2008:16) defends that the abundance of oil has generated incentives for a reallocation of resources and productive factors (especially after the Nigerian labour in cocoa production left), allowing an economic transformation that the government on its own wouldn't be willing to do. The enhancement of basic services (education, healthcare, water supply and sanitation), the agricultural productivity or tourism, are sectors to which public resources obtained by the oil generated income could be allocated. This way, the low social indicators of Equatorial Guinea would rise; like the 66% of the population without access to clean water, the rate of child mortality being 123.6 for every thousand or the maternal mortality rate equal to 680 for every 100.000 births (World Bank, WDI 2009). In this context what Frankel (2010) proposes about reallocating the petrol generated income equally among the population is quite relevant and Devarajan et al (2010) support this policy. The neighbour country Gabon is an example of the different ways countries with similar oil income can manage them[5]. Distributing the earnings among the population and then collecting taxes generates a more efficient economic system and a much more transparent accountability. A fiscal system which is transparent with its income and efficient with its redistributive expenses towards the population are two reforms that the country needs urgently.

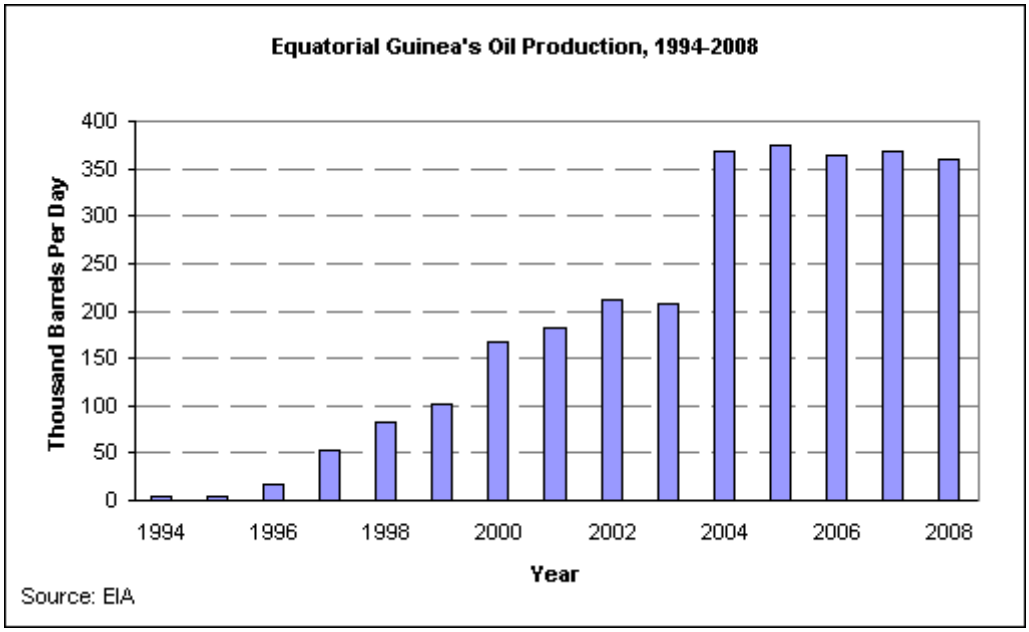
[4] Taking 1996=100 for a base, prices in 2008 had grown 8.8%, estimated with the CPI. Own calculations using information from WDI 2009 of the World Bank.

[5] See Basedau & Lacher 2008 for the comparison between Gabon and Equatorial Guinea. Gabon spends comparatively much more in education and healthcare. It has a lower level of corruption, but its oil income per capita is 3.4 times lower and the public spending per capita is almost twice as much as in Guinea (1.189 dollars per capita in Gabon against 611 in Guinea).

Equatorial Guinea's case seems to support the idea that the so called 'natural resources curse' is conditioned to countries with bad institutions (Mehlum, Moene & Torvik 2006) and it's not the sole fact of resource abundance what creates delays in economic growth (Sachs & Warner 2001). The causal direction may be double. Corruption and lack of transparency in public accounts along with other inefficient institutions are now fed by the oil sales income, but were fed before by the external aid. Political repression and the absence of certain liberties and rights already existed before oil became the principal financial source of the regime. The overabundant resource hasn't been the cause of the violence, insecurity, impunity and impoverishment, since these characteristics existed -with the same ruler- before 1996 when the oil FDI grew. Nevertheless it has had an enormous contribution in financing military spending through foreign companies (Frynas 2004; EIU 2005). Foreign investors take advantage of the dysfunctional legal frame to extract oil and gas in their own benefit, not worrying about the fact that the country's government stays in office without democratic legitimacy and that the benefits of these natural resources never reach the majority of the population. In this vicious circle there's no middle class capable of demanding more fiscal transparency because it provides more fund collection, or basic public goods (in quantity and quality). Therefore, the elites remain in power ignoring the general interest of the country. As we will see further on, the ODA may be an accomplice of this perverse mechanism.

The evolution of the oil production can be seen in graph 2.

Graph 2. Evolution of oil production in Equatorial Guinea.

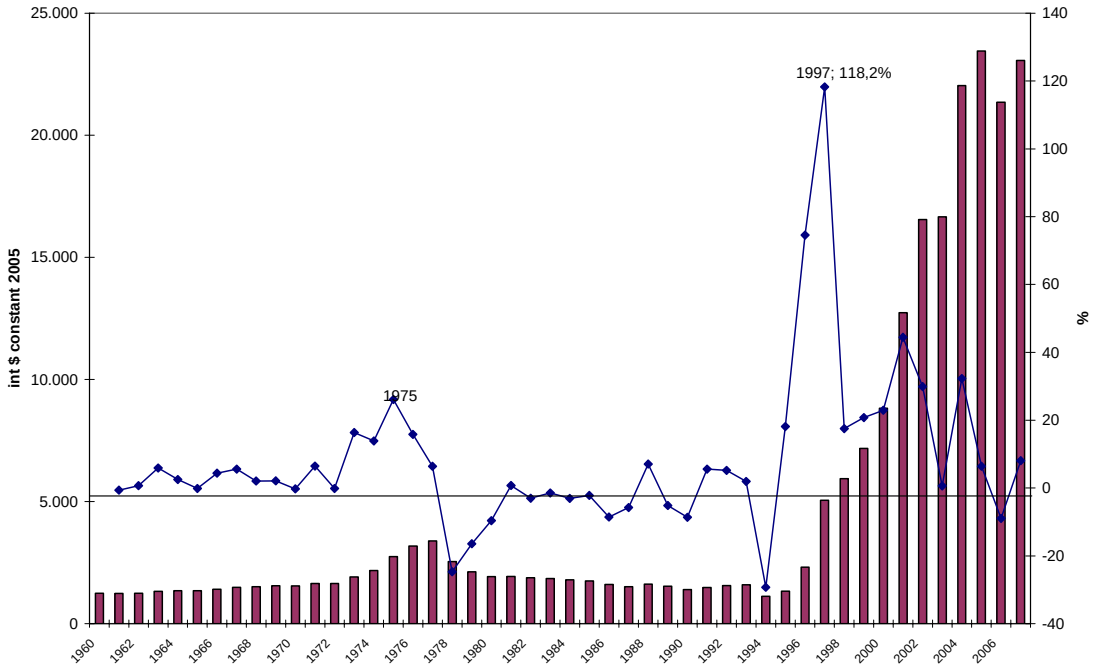


Source: Taken from EIA (2009).

As graph 3 shows, in 1996 the real GDP per capita hardly passed 2.300 constant 2005 dollars[6]. The next year it reached 5.000$ and by 1999 it had passed 7.000$. The growth trend has been unstoppable, by which in 2002 it exceeded 16.500$, in 2004 22.000$ and in 2005 it reached the maximum of 23.444 dollars.

We can see in table 2 that the growth rate of the period 1960-2007 was 6.4%, being the decade with the greatest rate 1990-2000 (20,2%) followed by the period 2000-2007 (14,7%). In the 80's, the absence of reforms and the dependence on cocoa and wood exports meant a decrease in -3.1%[7]. The arrival of foreign investment for the exploitation of natural resources set a turning point of the growth trend in 1997. The growth during 1960-1996 was a 1.7%, whereas in 1997-2007 it was 16.2%.

Graph 3. Evolution of Equatorial Guinea's real GDP: 1960-2007.



Source: Heston et al (2009) PWT 6.3.

Table 2. Cummulative growth rates of real GDP per capita.

1960-70	2,2%	1960-1996	1,7%
1970-80	2,2%	1997-2007	16,2%

[6] The data about the GDP per capita is very sensible to the PWT version. The correlation between PWT 6.3 and PWT 6.2 is 0.994, but between 6.3 and 6.1 only 0.131. Johnson et al. (2009) use Equatorial Guinea as an example for being the second African country with greatest economical growth in years 1975-1999 if we use PWT 6.2, with rate 4%, or the first country with worst performance if we use PWT 6.1, with rate -2.7%.

[7] See Morillas (2001) for details on the structural change carried out during 1991-1996 and Morillas (2004) for a description of the economic structure at the end of the 90's. For a more current description of this growth model without development see Gorozpe (2006).

1980-90	-3,1%	1960-2007	6,4%
1990-2000	20,2%		
2000-07	14,7%		

Source: Author's calculations based on Heston et al (2009).

The economic performance reveals growth rates higher than 5% in 22 of 48 years, and negative growths in 17 interannual periods. The two largest growths were in 1997 (118%) and 1996 (74%) after the arrival of American investment for the extraction of oil and gas.

International trade has been beneficial for the country, which faced a surplus of 1.420 million dollars in 2008. The main exporters to Guinea are United States (22%), Spain (18%), China (14%) and France (8%), which are at the same time the main importers of Guinean products: China (17%), Spain (13%), United States (12%) and France (11%).

The inflation rate in 2009 reached 4.5% (7.5% in 2008), the interest rate of the Central Bank 4.75%, the public debt 1.1% of the GDP and the external debt 190 million dollars. The estimated rate of investment in 2009 is 44% (CIA 2009) which is the second greatest in the world (between Seychelles 45.8% and China 42.6%). According to United Nations (2009) the country has made a strong structural change. In 1985 65% of the total production was agricultural and had been so since the independence. The industrial sector represented only 10% and services an extra 25%. The present sectoral structure is clearly dominated by the industry (93.7%) especially extractive (oil and gas add up to 91%), as opposed to the 5% in services and 4% in the primary sector.

The spectacular growth rate of the GDP per capita doesn't imply human development for the majority of the population. The oil generated income hardly leaves any benefits for the disadvantaged population for various reasons. One of the main reasons is that 98% of the income stays in hands of the American (ExxonMobil, Hess and Marathon) and French firms, along with the Dictator's family. His son Teodoro Obiang, Minister of Agriculture and Mining, receives directly in his account the taxes charged on the extraction of forest resources (Urbina 2009). The dictatorship accepts and directly causes corrupt actions while developped countries with extraction interests turn a blind eye or even break their own legislation. For example, the United States allows the Dictator's son, who receives over one million dollars in cash, to go to his mansion in California, despite the law promoted by the Bush Administration which denies access to the country to those suspected of corruption (Urbina 2009). The Dictator's son's income is connected to American banks such as Riggs Bank, Wachovia and Bank of America that have been rescued by the Reserve from their financial crisis in 2009. The estimated number of dollars only in the United States coming form corrupt actions is tens of millions.

Which is the answer development aid donors give to this situation? That is what we try to analyze in the next section.

3. ODA IN EQUATORIAL GUINEA.

The lack of data, especially concerning social variables and public expenditure components, may explain that most part of the academic cross-sectional research on

topics like the relationship between aid and growth, the fungibility of aid, or the volatility of aid doesn't include Equatorial Guinea in their samples. Due to this limitation, I have chosen to dedicate this section of the article on the most recent studies about the effectiveness of aid, focusing on the analysis of aid flows in contrast with the GDP, and other external financing sources like the Direct Foreign Investment (FDI) or remittances. A first approach will focus on the macroeconomic interrelations, whereas a second one will analyze Spain as main donor of ODA in Equatorial Guinea.

3.1. MACROECONOMIC FEATURES OF THE AID RECEIVED BY EQUATORIAL GUINEA

This section analyzes four global features of the ODA received by Equatorial Guinea: its predictability, stability, pro or counter-cyclicality, and the stabilizing effect on GDP. It also provides an analysis on the significance of variables like aid and foreign investment on the evolution of Equatorial Guinea's GDP.

Predictability is defined as the adaptation of the commitments taken by donors to the further payments made (Arellano et al. 2009; Celasum & Walliser 2008). The predictability indicator is the correlation between the commitments and the one-period delayed payments.

The stability of the ODA flow is determined with the variation coefficient (VC) computed by the standard deviation divided by the mean, which is at the same time an approximate indicator of the volatility of aid.

The pro or counter-cyclicality is captured in the correlation between aid (or direct foreign investment FDI, in its case) and the GDP[8].

Following the methodology used by Neagu & Schiff (2009), the stabilizing effect is measured comparing the VC of GDP plus ODA, and the VC of the GDP. If the first one is smaller, we can say that ODA has a stabilizing effect. The empirical evidence supports this characteristic in many aid-receiving countries (Neagu & Schiff 2009; Guillaumont & Tapsoba 2009).

The data of the ODA comes from the data base 'DAC' of the OECD-DAC and are available for the period 1973-2008 if we care about all donors, and for 1987-2008 if we look for Spanish payments. The data regarding GDP and FDI are taken from the World Bank (*World Development Indicators 2008*). The time period with complete information for all three flows is 1985-2006, which, unless stated otherwise, is the one with which we'll work on in this section. The series were obtained originally in current dollars and were later transformed into constant 2000 dollars using the American GDP deflator. Finally the trend has been eliminated with the Hodrick-Prescott filter using λ = 100 as is usual in literature (Bulir & Hamann 2008; Hudson & Mosley 2008; Fielding & Mavrotas 2008).

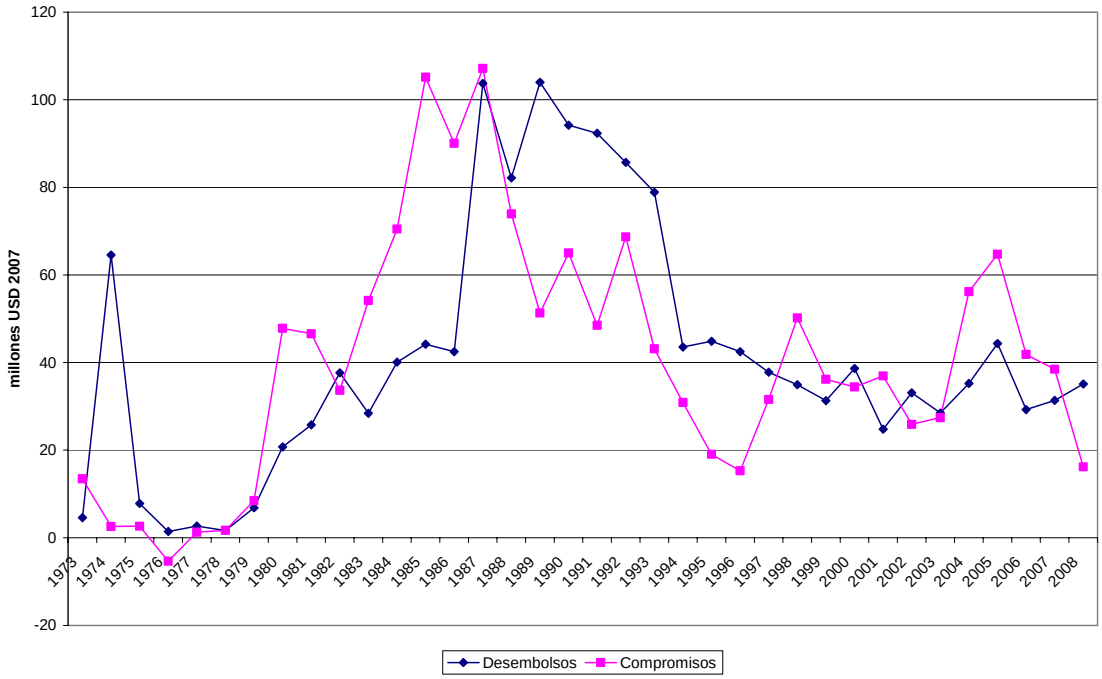
Predictability.

We have calculated the correlation coefficient and the correlation of determination (R^2) taking into account the commitments and payments in 1973-2008 (largest period with

[8] The lack of data on the remittances rendered impossible the comparison with this private flow so important for other countries' development financing (for a regional study with the same methodology as the one used here consult Neagu & Schiff 2009).

available data) in constant 2007 dollars. We have found them both for the annualized series as for the one-period delayed payments. The results show that the commitments don't match with the further payments. The correlation for the paired data in the same year is 0.59 (R^2=0.3484) and for the one-period delayed payments 0.69 (R^2=0.4700) (Graph 4).

Graph 4. Evolution of commitments and payments of the ODA in Equatorial Guinea. All donors.



Source: Data from OECD-DAC On line.

Stability.

The ODA in Equatorial Guinea is a much more stable flow than the GDP or the FDI. The VC of the aid is 0.42 (0.17 according to the filtered trend series), whereas the GDP's is 1.74 (1.53 with filtered data) and the FDI's is 1.58 (1.40). The low values of the VC confirm that aid is comparatively much more stable.

Pro-cyclicality.

The result of the correlation between GDP and ODA is 0.01 (greater than 0 and therefore pro-cyclical) if we take into account the series without eliminating the trend with the Hodrick-Prescott filter. In contrast, when we use the filter the correlation changes sign -0.46, which implies counter-cyclicality. To solve this ambiguity we use an alternative methodology (like Frot & Santiso 2008) which consists of computing the correlation between GDP and ODA of the series of five year mobile means. In this case the correlation coefficient takes a negative value -0.39 confirming the counter-cyclical character of aid.

The pro-cyclical character of the FDI is very high, being its correlation with the GDP 0.92 (non-filtered data) or 0.99 using the filtered series.

Last of all it's worthwhile to notice that the correlation between ODA and FDI is negative (-0.06 with non-filtered data, -0.5 with filtered data and -0.46 with five year mobile means).

To add up, while the ODA flow is much more stable than FDI and has a counter-cyclical behaviour, there exists an inverse relationship between them. This fact takes us to analyze more carefully the existence of a substitution effect between aid and foreign investment.

Stabilizing Effect.

The VC of GDP plus ODA is 1.70, smaller than that of GDP alone (1.74), which implies that aid has a stabilizing effect in Equatorial Guinea. The same happens with the FDI. The VC of GDP+FDI is 1.68[9].

In result the ODA flow in Equatorial Guinea is hardly predictable, stable, counter-cyclical and stabilizer of the GDP. The FDI, on the other hand, is much more volatile and also pro-cyclical, even though it shares the stabilizing impact of the ODA.

Linear Regression Model.

To verify the contribution of FDI and ODA to the economic growth of Equatorial Guinea, we have estimated the following model:

$$LogGDP_t = \alpha + \beta ODA_t + \chi FDI_t + \delta Dummy + \upsilon_t$$

The first regression of level data gave as result the existence of non-normal errors, serial autocorrelation and heteroskedasticity. To avoid this the model was later tested with the dependant variable in Log form and included a dummy variable for the period 1997-2007, after American FDI in Equatorial Guinea began[10].

The results of the estimated model with three alternative time periods are captured in Table 3.

Table 3. Relation between GDP, ODA and FDI

Dependent var.: logGDP	1	2	3
Period	1985-2006	1985-1995	1996-2006
Constant	3.25***	4.02***	6.61***
	0.30	0.13	0.32
ODA	0.10	0.013***	-0.02
	0.006	0.003	0.03
FDI	0.001***	0.005*	0.0014***
	0.0002	0.0005	
Dummy97-06	2.00***		
	0.43		

[9] The results are consistent using the series of five year means: the VC of GDP+ODA is 1.47 and the VC of GDP+FDI is 1.49, both smaller than the VC of GDP alone: 1.51

[10] Other specifications like considering aid squared (to test the possibility of decreasing outcomes) or adding an interactive term between aid and investment didn't provide statistically significant results. The existence of negative values didn't allow hypothesis testing with smooth series.

R^2	0.95	0.75	0.77
F-test	131.9**	12.21**	13.43**
Observations	22	11	11

Note: In italics, standard errors consistent with heteroskedasticity. * significant at 90%; ** significant at 95%; *** significant at 99%.

The ODA didn't have a significant impact in the period 1985-2006 or 1996-2006, but it did during 1985-1995. However, the FDI was significant in the first subperiod and gets stronger after 1996. If we focus on the whole period, the significance of the FDI is strong (t-statistic 8.23 and a parameter 0.002 if we use a regression without aid). The importance of the structural change taken place in 1996 can be proven thanks to the significance of the dummy variable for the period 1997-2006. For every extra million USD in FDI, the GDP grows 0.1%[11].

The parameters' correlation matrix turned out to be:

	Log GDP	ODA	FDI
Log GDP	1		
ODA	-0,22	1	
FDI	0,87	-0,06	1

GDP and FDI have a strong positive correlation, whereas ODA presents a negative correlation with GDP and FDI, being the latter very weak.

Very similar results are obtained if we make the regression of the same model taking the log of GDP per capita and the quantities of ODA and FDI in current dollars for the period 1986-2006. The ODA's coefficient is -0.02 significant at 98%, and the coefficient of the FDI is 0.001 significant at 99%, passing the tests in note 9, with an R^2 equal to 0.85 and F-test=54.47**.

We can conclude that Equatorial Guinea's GDP is tightly attached to foreign investment. For every million dollars in FDI, the GDP grew 0.1%. Aid, in turn, doesn't have a statistically significant impact during the period 1985-2006, although it did in the first half. A million extra dollars in ODA made the GDP grow 1.3%.

The question if whether or not aid has had some impact on other economic or social variables, especially poverty, arises immediately. The lack of data on poverty in Equatorial Guinea makes it impossible to analyze this effect directly. Nevertheless, in the next section we carry out a thorough analysis of the source of aid and the most assisted sectors, as an indirect way of learning the potential benefits of this flow.

[11] The model passed the normality tests AR(1-2), ARCH(1-1), Heteroskedasticity and RESET. The corresponding values are available for those interested.

4. THE ODA IN EQUATORIAL GUINEA. SPAIN'S LEAD ROLE.

Thanks to the information provided by the World Bank (2009), in the mid-80's Equatorial Guinea received more than 22% of its GDP in ODA. This ratio grew up to 54% in 1989, and has decreased ever since. In 1996, when the investment in oil began, it went down to 15%. From this moment on Equatorial Guinea has reduced its dependence on ODA. A year later (1997), the ratio ODA/GDP was already 6% and has followed a monotone decrease down to 0.5% in 2006 and 2007. We can find a similar evolution if we look at aid per capita. The series reaches its maximum in 1991 at 158 dollars and goes down to 42 dollars in 2006, finding a minimum at 24 dollars in 2001. Regarding the gross capital formation, the aid accounted for 262% of it in 1990, 10% in 1996 and barely 0.7% in 2007.

From 1973 to 2008 (for which there is available data in the OECD's data base DAC), Equatorial Guinea received 1.505 million dollars (ODA net payments measured in constant 2007 dollars). Table 4 shows the breakdown by donors of this total amount.

The number of active donors, both bilateral and multilateral, has been pretty much constant since the late 80's, around 20 donors and a maximum of 23 agents operating simultaneously, of the 61 with available information. On average, 11-12 bilateral donors and some more multilateral donors operate in the country, in addition to the 2-3 donors that are not members of the DAC (Graph 5). Among these, the most important are the loans given by Arab countries during 1985-91 (up to 9.6 million dollars) which are generating repayments (negative net ODA) since year 2000 (reaching 3.5 million dollars). Another remarkable aspect is the 10-11 constant multilateral donors since 1995. There has also been a strong decrease in bilateral donors in 2007 with only five remaining (Canada, France, Japan, Spain and United States). Since 1987, where we start to find information for Spain, only France and Japan have maintained their contributions every year up to 2008. In any case, this figure is much lower than the mean of the receiving countries (28 in 2006: 19 bilateral and 9 multilateral; according to Frot & Santiso 2008).

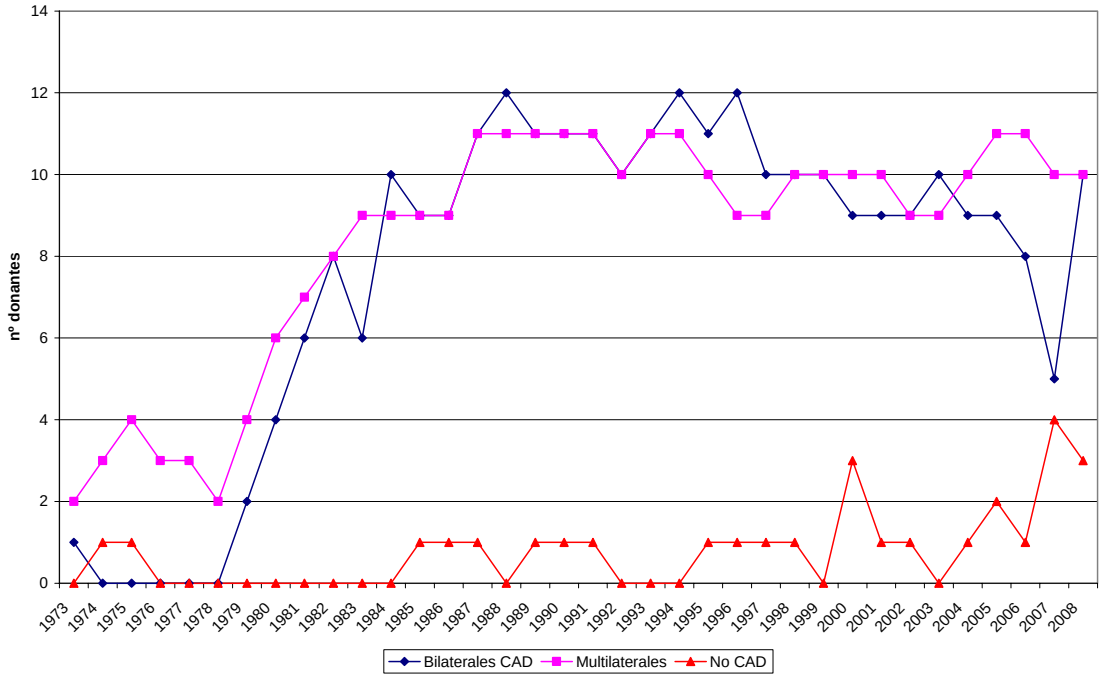
Spain has been the main donor with almost 467 million dollars, close to 31% of the total. Together with France, it has been the most active bilateral donor, and both sum up more than half of the aid given to Equatorial Guinea. Among the multilateral organisms, the European Commission and the UNDP have made the greatest contributions, representing 15% of the net ODA. It's interesting to notice that seven of the ten largest donors are multilateral.

Table 4. ODA in Equatorial Guinea 1973-2007

	Donor	Million USD	%	Accumulated %		Donor	Million USD	%	Accumulated %
	All Donors, Total	1505.04	100.00%		18	IFAD	9.1	0.60%	97.94%
	DAC Countries, Total	907.53	60.30%		19	Canada	8.31	0.55%	98.50%
	Multilateral, Total	525.37	34.91%		20	Sweden	5.3	0.35%	98.85%
	Non-DAC Countries, Total	72.14	4.79%		21	Switzerland	5.28	0.35%	99.20%
1	Spain	466.92	31.02%	31.02%	22	UNHCR	4.76	0.32%	99.52%
2	France	307.54	20.43%	51.46%	23	Netherlands	2.99	0.20%	99.71%
3	EC	147.81	9.82%	61.28%	24	Arab agencies	2.77	0.18%	99.90%
4	UNDP	81.66	5.43%	66.70%	25	Belgium	2.73	0.18%	100%
5	Arab countries	71.56	4.75%	71.46%	26	Luxembourg	1.81	0.12%	100%
6	IDA	67.38	4.48%	75.94%	27	United Kingdom	1.46	0.10%	100%
7	AfDF	56.83	3.78%	79.71%	28	Norway	0.55	0.04%	100%
8	WFP	50.44	3.35%	83.06%	29	Korea	0.31	0.02%	100%
9	Italy	37.88	2.52%	85.58%	30	Turkey	0.23	0.02%	100%
10	UNTA	33.27	2.21%	87.79%	31	Portugal	0.22	0.01%	100%
11	Germany	31.07	2.06%	89.86%	32	Austria	0.18	0.01%	100%
12	UNICEF	24.89	1.65%	91.51%	33	UNAIDS	0.12	0.01%	100%
13	United States	23.22	1.54%	93.05%	34	Greece	0.09	0.01%	100%
14	UNFPA	23.03	1.53%	94.58%	35	Finland	0.09	0.01%	100%
15	Global Fund	16.35	1.09%	95.67%	36	Other donors	0.04	0.00%	100%
16	IMF Trust Fund	13.28	0.88%	96.55%	37	Ireland	0.02	0.00%	100%
17	Japan	11.87	0.79%	97.34%	38	IMF (SAF,ESAF,PRGF)	-6.32	-0.42%	

Source: OECD-DAC data.

Graph 5. Evolution of the number of active donors.



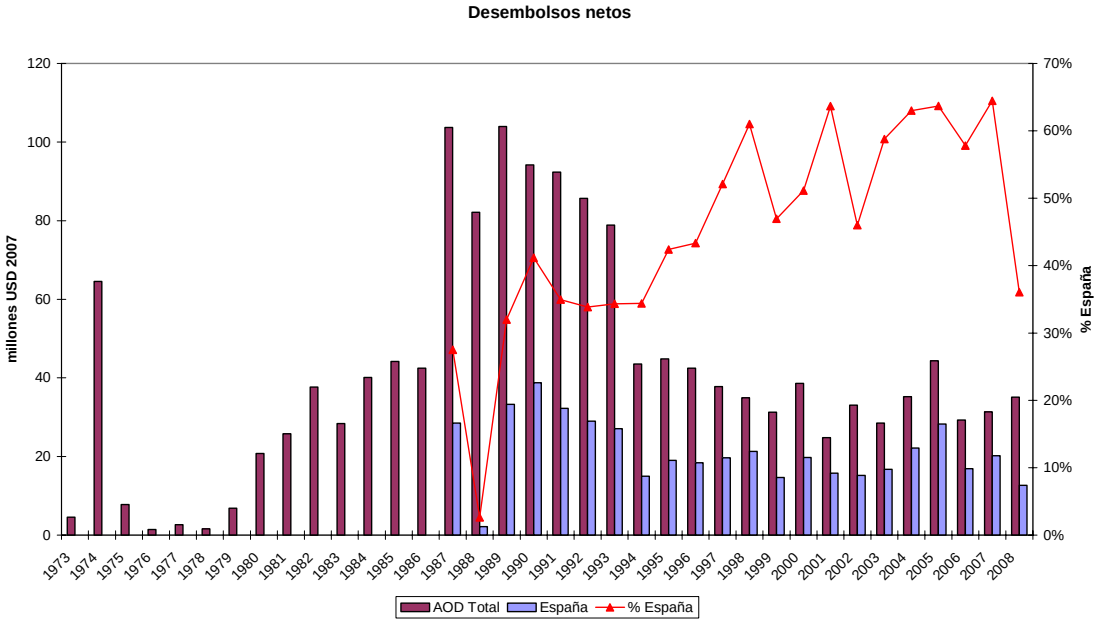
Source: OCDE-DAC data.

Another proper feature of Guinean aid is the donor concentration. Only six donors cover 75% of the aid received. Opposite to the rest of Africa in which the number of donors is quickly increasing, Equatorial Guinea can well be an example of the so called 'aid orphans'. Even so, between 1973 and 2008 Equatorial Guinea received ODA funds from 38 donors. In the last year for which we can find data (2008), there were only 23 active donors: 10 bilateral, 10 multilateral and 3 non-DAC donors. Anyways, Spain has always been the donor with greatest contributions.

Spain's lead role can be seen in Graph 5. Since 1995 the Spanish contribution has been greater than 40% of the total ODA in Equatorial Guinea, in many cases reaching 60% (the maximum is found in 2007 at 64.4%).

Regarding the stability of its annual flows, Spain is one of the least volatile countries (measured with the variation coefficient). Occupying position 29 of 34 with a VC equal to 0.38 (Table 5).

Graph 5. Spanish ODA compared with the total



Source: OECD-DAC data.

Table 5. Volatility of the donors' ODA in Equatorial Guinea. 1973-2007.

Donor	VC	Donor	VC
Arab Agencies	8.99	European Commission (EC)	0.77
Arab Countries	3.29	France	0.71
World Bank (IDA)	1.78	UNAIDS	0.71
Luxembourg	1.64	UNDP	0.67
IFAD	1.6	UNICEF	0.65
AfDF	1.57	WFP	0.63
Switzerland	1.51	UNTA	0.51
United Kingdom	1.37	Global Fund	0.46
UNHCR	1.35	UNFPA	0.41
Canada	1.22	Norway	0.39
Netherlands	1.12	Greece	0.39
Germany	1.02	SPAIN	0.38
Italy	1.01	Austria	0.35
Japan	1.00	Portugal	0.18
Belgium	0.84	Finland	0.16
United States	0.82	Other Donors	0.00
South Korea	0.79	IMF (SAF,ESAF,PRGF)	-11.33

Source: OCDE-DAC data. The negative variation coefficient of the IMF is due to the net character of the ODA (meaning that there were greater repayments from Guinea than new loans).

Sectoral Analysis.

Once we have shown the importance that Spain has in quantitative aid to Equatorial Guinea, the next step is to analyze the sectoral distribution of its flows. Table 6 summarises this sectoral division following the classification of the DAC and including different levels of disintegration (from 1 to 3 digits). We compare the percentual distribution of the total aid of all donors together (columns 1 and 2) with Spain's aid (columns 3 and 4), and the difference between them (column 4-2, where positive sign means a greater Spanish percentage, and negative sign indicates a higher percentage of all donors). Last of all, we compare Spain with the rest of the donors (excluding Spanish aid, last three columns). The first column shows the stock of aid in 1997-2008, whereas the last one shows the percentage over the total.

The main Spanish features are the following. More than 80% of Spanish aid is spent on social services, especially education (46%) and healthcare (26%). Here we can find the greatest difference with the percentage structure of all donors and of the other donors (excluding Spain). An important part of this aid is conducted by the NGOD (FERE for education and FRS for healthcare)[12]. Apart form Spain, the aid for education of the rest of the donors is 8% and 11% for healthcare. Taking into account the aid of all donors (including Spain) education takes 28% of it and healthcare 19%. Both sectors are, by large, the most important of all.

A possible interpretation of this data is that the Spanish aid substitutes a big responsibility of the Guinean state, which is to finance its basic public services. This explanation is supported if we take into account the income obtained by the Guinean state with the petrol exports. If this income were used to finance basic public services, especially for the disadvantaged population, the resources coming from aid could be used in other areas, or progressively withdrawn. The aid flows to education and healthcare remain with practically no variation throughout the eleven years. The mean in education is 8.9 million dollars, with a standard deviation equal to 1.3 million. Healthcare received on average 4.9 million dollars with a standard deviation equal to 1.6 million. The VCs of these two areas are the lowest of all.

Another feature of the sectoral distribution of Spanish aid is the amount spent on Governance and Civil Society. In a country often criticized for its weak democracy, transparency and inobservance of human, civil, and political rights, the aid sent to this sector would denote a development policy very welcome by the Guinean civil society and the impoverished. The average amount spent in this sector was 0.3 and had a standard deviation equal to 0.26, which gives us a high volatility (VC=0.84).The accumulated amount of the whole period is 3.59 million dollars, with a maximum 0.78 in 2007. The record of the 11th Mixed Commission for 2009-2011 points out as first

[12] According to sources of FRS, the Federation has been working on healthcare in Equatorial Guinea since 1979. That year the Foreign Affairs Office asked it to work in the Technical Cooperation Plan between Spain and Equatorial Guinea. There has since been a continuous collaboration. In 2010 there were 35 people working in exile and 149 locals. In total they managed 173 health centres in 271 villages. During 1980-2000 the aid specialized in primary healthcare and hospital assistance. In 2001 they ceased their work in hospitals after receiving support form Cuban cooperation. Between 2001 and 2004 they have promoted the development of communitarian health areas in 9 districts. The personnel of FRS currently work in a public hospital a public and a private health centre and in a clinical analysis laboratory.

priority the "*Enhancement of the social and institutional capacities in the democratic governance, citizen involvement, and institutional improvement sectors"* (AECID 2009:5). The breakdown of the scheduled programs and activities refer to a series of courses and technical assistances for diplomats, judges and civil society with a questionable direct impact on the disadvantaged population. Furthermore, with no commitments regarding deadlines or quantities, everything is subject to free interpretation, looking more like a shopping list than a truly result-oriented association frame, like the rhetoric of the Record and Master Plan 2009-2012 declares.

The catchall of "Other services and social infrastructures" gathers 6% of the aid received between 1997 and 2008. The remaining social services subsectors are water supply and sanitation which cover 1.1% and population and reproductive health, 0.9%.

The sector that has received more aid after education and healthcare is the external debt relief. It covers 11% of the aid with a total amount of 24.5 million dollars. The other donors gave this sector another 29.9 million dollars (15% in their sectoral structure). The statistics of the DAC give us three consecutive years: 2003 (3.2 million dollars), 2004 (9.5 million) and 2005 (11.7 million). The Record of the 11th Mixed Commission states that in 2003 two programs for debt conversion were signed. One for public investment debts (27.8 million euros) which finance the construction of three high schools and the future construction of a hospital with a tropical diseases research centre. The other was for private investment debts (16.3 million euros) without specific destinations (*"available for entrepreneurs that chose to join in").* According to the Debt and Globalization Observatory (ODG) with the data base of the Ministry of Economy and Finance, Equatorial Guinea owed Spain 16.41 million dollars on December 31st 2007, which was only 0.19% of the total debt towards Spain, all of it coming from the "CESCE debt".

The other sectors receive comparatively smaller amounts than those of education, healthcare and debt. For example, 1.5% spent on environment (included in Multisectoral), 1.4% on agriculture, 1% on industry or 0.4% on energy.

Table 6. Sectoral Distribution of Spanish ODA to Equatorial Guinea. 1997-2008.

Commitments, constant 2007 USD millions			1997-2008	ALL donors		SPAIN			All-Spain		
				M$ 2007	%	M$ 2007	%	% Spain-All	M$ 2007	%	%Spain-rest donors
				(1)	(2)	(3)	(4)	(4-2)	(1-3)	(5)	(4-5)
ALL				413.06	100.0%	216.90	100.0%		196.16	100.0%	
450: V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)				342.26	82.9%	189.34	87.3%	4.4%	152.92	78.0%	9.3%
450: V. TOTAL SECTOR ALLOCABLE	100: I. SOCIAL INFRASTRUCTURE & SERVICES			307.55	74.5%	177.79	82.0%	7.5%	129.75	66.1%	15.8%
	100: I. SOCIAL INFRASTRUCTURE & SERVICES	110: I.1. Education		115.88	28.1%	99.89	46.1%	18.0%	15.99	8.2%	37.9%
		110: I.1. Education	111: I.1.a. Education, Level Unspecified	51.07	12.4%	38.14	17.6%	5.2%	12.93	6.6%	11.0%
			112: I.1.b. Basic Education	27.83	6.7%	26.92	12.4%	5.7%	0.91	0.5%	12.0%
			113: I.1.c. Secondary Education	17.34	4.2%	17.31	8.0%	3.8%	0.03	0.0%	8.0%
			114: I.1.d. Post-Secondary Education	19.64	4.8%	17.52	8.1%	3.3%	2.11	1.1%	7.0%
		120: I.2. Health		78.62	19.0%	56.16	25.9%	6.9%	22.45	11.4%	14.4%
		130: I.3. Population Pol./Progr. & Reproductive Health		23.26	5.6%	2.05	0.9%	-4.7%	21.20	10.8%	-9.9%
		140: I.4. Water Supply & Sanitation		26.73	6.5%	2.28	1.1%	-5.4%	24.45	12.5%	-11.4%
		150: I.5. Government & Civil Society		35.07	8.5%	3.59	1.7%	-6.8%	31.48	16.0%	-14.4%

		150: I.5. Government & Civil Society	151: I.5.a. Government & Civil Society-general	34.94	8.5%	3.47	1.6%	-6.9%	31.47	16.0%	-14.4%
			152: I.5.b. Conflict, Peace & Security	0.13	0.0%	0.12	0.1%	0.0%	0.01	0.0%	0.1%
		160: I.6. Other Social Infrastructure & Services		27.99	6.8%	13.81	6.4%	-0.4%	14.18	7.2%	-0.9%
	200: II. ECONOMIC INFRASTRUCTURE AND SERVICES			6.74	1.6%	1.05	0.5%	-1.1%	5.69	2.9%	-2.4%
	200: II. ECONOMIC INFRASTRUCTURE AND SERVICES	210: II.1. Transport & Storage		4.83	1.2%	0.00	0.0%	-1.2%	4.83	2.5%	-2.5%
		220: II.2. Communications		0.16	0.0%	0.15	0.1%	0.0%	0.01	0.0%	0.1%
		230: II.3. Energy		0.90	0.2%	0.90	0.4%	0.2%	0.00	0.0%	0.4%
		240: II.4. Banking & Financial Services		0.85	0.2%	0.00	0.0%	-0.2%	0.85	0.4%	-0.4%
		250: II.5. Business & Other Services		0.00	0.0%	0.00	0.0%	0.0%	0.00	0.0%	0.0%
	300: III. PRODUCTION SECTORS			11.25	2.7%	5.35	2.5%	-0.3%	5.90	3.0%	-0.5%
	300: III. PRODUCTION SECTORS	310: III.1. Agriculture, Forestry, Fishing		8.36	2.0%	3.10	1.4%	-0.6%	5.26	2.7%	-1.3%
		320: III.2. Industry, Mining, Construction		2.68	0.6%	2.25	1.0%	0.4%	0.43	0.2%	0.8%
		331: III.3.a. Trade Policies & Regulations		0.21	0.1%	0.00	0.0%	-0.1%	0.21	0.1%	-0.1%
		332: III.3.b. Tourism		0.00	0.0%	0.00	0.0%	0.0%	0.00	0.0%	0.0%
	400: IV. MULTISECTOR / CROSS-CUTTING			16.72	4.0%	5.15	2.4%	-1.7%	11.57	5.9%	-3.5%
500: VI. COMMODITY AID / GENERAL PROG. ASS.				5.04	1.2%	0.00	0.0%	-1.2%	5.04	2.6%	-2.6%
600: VII. ACTION RELATING TO DEBT				54.43	13.2%	24.52	11.3%	-1.9%	29.91	15.2%	-3.9%
700: VIII. HUMANITARIAN AID				1.95	0.5%	0.18	0.1%	-0.4%	1.77	0.9%	-0.8%

910: IX. ADMINISTRATIVE COSTS OF DONORS		4.35	1.1%	0.51	0.2%	-0.8%	3.85	2.0%	-1.7%
920: X. SUPPORT TO NGO'S		0.50	0.1%	0.18	0.1%	0.0%	0.32	0.2%	-0.1%
930: XI. REFUGEES IN DONOR COUNTRIES		0.28	0.1%	0.19	0.1%	0.0%	0.09	0.0%	0.0%
998: XII. UNALLOCATED/UNSPECIFIED		4.24	1.0%	1.99	0.9%	-0.1%	2.25	1.1%	-0.2%

Source: OECD-DAC, CRS On line.

Details of Spanish ODA: analyzed through involved agents.

In this section we present the stylized features of Spanish aid in Equatorial Guinea during the most recent period. The data in this section has been taken from the follow-up reports PACI 2007 and 2008, and their respective spreadsheets provided by the General Direction of Planification and Evaluation of Development Policies (DGPOLDE).

Bilateral ODA.

According to the information given by the Foreign Affairs Office (MAEC 2008), in 2008 Spain spent 9.560.240 euros in 59 operations (84 in 2007) of bilateral aid, (except for two multi-bilateral ones). That is, 0.29% of the total bilateral aid. Of these operations, 19 were carried out by the AECID; 6 by other ministries; 8 by Autonomous Communities (each one by a different community); 23 by city councils and 1 by a university (UNED). All of them were programs or projects, except for three which were intended for scholarships, formation and sensitization.

The aid was conducted by national development NGOs (37), public Spanish entities (12), Spanish firms, local NGOD or networks (one each) and other entities (2).

The type of the aid and the tools used by bilateral aid are shown in Table 7.

Table 7. Spanish aid in Equatorial Guinea according to the tools used.

	2008		2007	
Type	# of Operations	%	# of Operations	%
Technical Cooperation	33	55.9%	27	32.1%
Programs	6	10.2%	16	19.0%
Investment Projects	4	6.8%	11	13.1%
Other resources	16	27.1%	28	33.3%
TOTAL	59	100%	84	100.0%

Source: MAEC (2007, 2008).

Table 8. Multilateral Spanish aid in Guinea Equatorial in 2008.

Entity	Euros	%
Global Fund*	130,838	30.6%
UNICEF	21,149	4.9%
UNDP	76,512	17.9%
UNFPA	68,833	16.1%
EC Budget	97,543	22.8%
EDF	32,481	7.6%
TOTAL	427,356	100%

Note: * Global Fund against AIDS, Tuberculosis and Malaria.

Source: MAEC (2008).

Multilateral ODA.

When we look at multilateral aid in 2008, we find that the ODA in Equatorial Guinea rose up to 427.356 euros, figuring as 0.03% of Spanish multilateral aid. Only eight of the 35 operations MAEC reported began in 2008, whereas the rest where contributions committed to in 2006 (4) or 2007 (23). Their final uses can be seen in Table 8.

In regard to Spanish NGOs in Equatorial Guinea, the Directory of CONGDE (2009) provides this information for 2007: 15 NGOs carried out 38 projects with a total value of 6.953.857 euros.

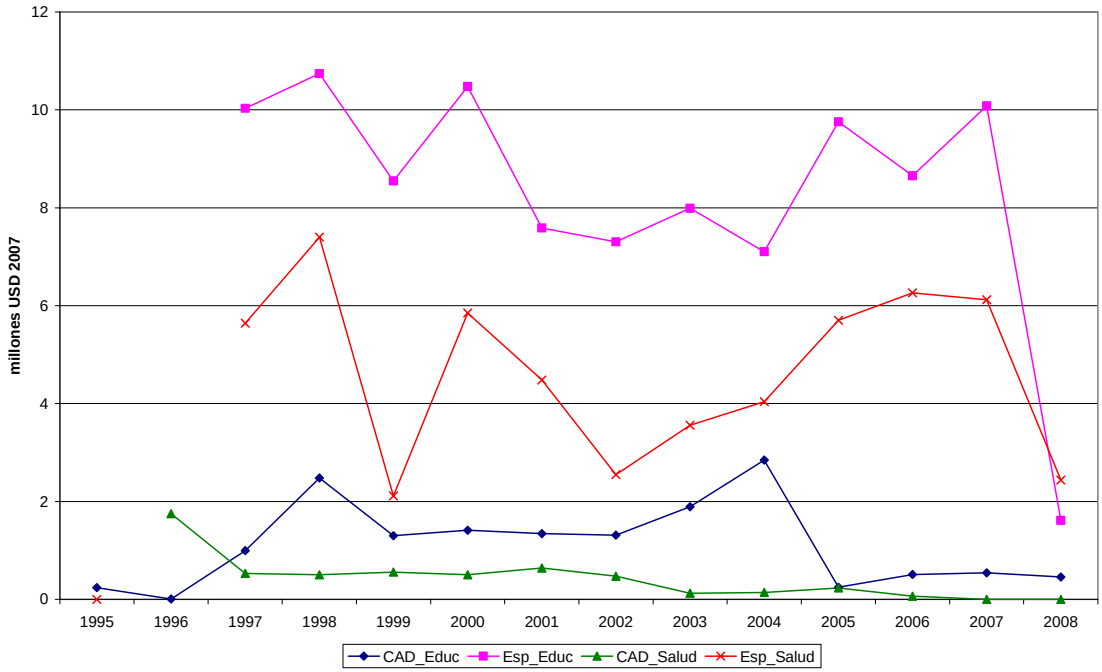
In the planning of the PACI 2009 and 2010 there are remarkable variations in the allocation by agents of Spanish aid in Equatorial Guinea. AECID decreases its financing percentage from 89.7% in 2009 to 78.1% in 2010 in detriment of the Autonomous Communities. These gain relative importance (from 4.2% to 11.1%), as do the Local Entities (from 2.9% to 4.6%) and the Universities (increase in 1.7%).

There are also great variations in the sectoral allocation. In contrast with the 51.3% spent on education in 2009, in 2010 only 23.8% is predicted, going through a decrease in 27.5 percentage points. Nevertheless, healthcare and reproductive health go from 32.8% in 2009 to 64.2% in 2010 (a 31.4% increase). There aren't any planned contributions for water supply or gender equality for 2010, in which 2.6% and 0.3% were respectively spent in 2009. There are also less contributions for infrastructure and economic services and for productive sectors, which pass to hold 0.9% instead of the 3.1% they had before. The criterion behind these changes is something worth analyzing deeply.

4.1 EDUCATION AND HEALTHCARE AID.

As we can see in Graph 4, ODA in Equatorial Guinea for education (code CRS110) and healthcare (code CRS 120) has been dominated by Spanish contributions, as we have mentioned before. Multilateral aid has made very few contributions: a total 0.66 million constant dollars in education and 14.63 million in healthcare. Practically the entire amount is due to the donation of the Global Fund against AIDS, Tuberculosis and Malaria in 2006, which reached 13.95 million dollars. What we pursue in this section is to know whether or not these contributions have lead to an improvement of the education and health indicators. All the literature on the effectiveness of aid highlights that the effects can be heterogeneous among countries and sectors. For this reason, the case study of a country like Equatorial Guinea has important consequences, especially for Spanish cooperation.

Graph 6. Evolution of ODA commitments on Education and Healthcare.



Source: OECD-DAC data.

Education aid.

The data provided by UNESCO and the World Bank on education in Equatorial Guinea is scarce. We don't have time series with annual observations. In addition, each variable has a different number of observations, which complicates the quantitative analysis even more. Even so, we can still make the following remark: the data of educational results hardly changes in time, and does so quite erratically.

In Equatorial Guinea, elementary education starts at seven years of age and consits of five grades. Middle School begins at twelve at lasts another seven years.

We have more data for the years 1999-2005. During this period, the rate of students that finished elementary education went down from 65.7% in 1999 to 47.8% in 2003. It later grew up to 58.2% in 2005, still below the 1999 percentage. The gross rate of enrollment in elementary education went from 142.1% in 1999 to 122% in 2005. The same rate for secondary education moved from 33.03% in 1999 to 31.93% three years later. The college rate of enrollment was 2.7% in 2000 (only available figure). So to say, there is a reduction, or at best a paralysis of the enrollment indicators. We know even less about the quality of the education (grades, absence of teachers and students, vocational training, etc.), but we do know that the aid, both international and Spanish, hasn't stopped arriving, year by year. Between 1999 and 2008 Spain spent 10.64 million dollars on secondary education and 12.20 on tertiary. What has been the result of these transferred quantities? The answer needs a deep evaluation[13].

[13] The first evaluation that Spanish cooperation did in 1998, which first used the Evaluation Methodology, was on Equatorial Guinea's cocoa sector. It was a final evaluation and was done with the

On the other hand, the absence of results for the educational variables also affects the slight increase in the educational public expense. Education receives annually 0.6% of Equatorial Guinea's GDP, which increased 39% during 2000-2007. Such an increase should have carried on an enormous flow of new annual resources. However, the figures of public expense percentage used on education were 1.62% in 2001, 3.97% in 2002 and 4.01% in 2003 (no more observations). We don't know the total level of public spending nor the exact amount of public educational expense, but we do know the amount of the public consumption expense. In 2000 it was 57.3 million current dollars, and 287.6 million in 2007. That means it grew 26%, being multiplied 5 times. Has this outstanding increase brought any benefit for the country's education? It seems unlikely and again requires a deep analysis. The econometric studies with panels of countries over the effect of aid for education on variables like the enrolment rates or the completion of elementary studies have shown favourable results for the impact of aid. Oppositely, there's much literature proving that the public expense on education doesn't improve academic results (grades, class attendance) nor does it increase enrolment rates (including children, second MDG) or elementary school completion rates. Recent studies like Michaelowa & Weber (2007a, b), Wolf (2007) and Dreher et al (2008) have proven that per capita aid has a slightly positive impact on enrolment in all three educational levels. Asiedu & Nandwa (2007) obtain positive results of aid on the country's growth rate for primary education in low-income countries and for tertiary education in middle-income countries. In low-income countries, both secondary and tertiary education aid don't have a statistically significant association. In middle-income countries the statistical impact on the economic growth rate of aid spent on elementary and secondary education is negative. This effect is probably explained by the high enrolment level in these countries. This makes the returns on GDP not as significant because education at these levels and countries isn't correctly oriented towards production. Is Equatorial Guinea an exception or a conformation of these results? Guinea doesn't appear in any of the samples of the mentioned studies. The need of a thorough evaluation of the impact of aid on education in Equatorial Guinea can't be denied before we continue to send aid with unknown results[14]. The coherence with the fourth principle of aid quality established by the Paris Declaration (OECD 2005) and ratified in Accra (OECD 2008), which is precisely a result oriented aid, requires doing so.

Healthcare aid.

The literature on sectoral effectiveness of aid per capita in healthcare results reveals two evidences: that aid is statistically significant in reducing child mortality (Boone 1996; Wolf 2007; Mishra & Newhouse 2007) and that it usually stimulates public spending in

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EU (the report is published in MAE 1998). There still hasn't been a complete evaluation of all the Spanish aid in the country.

[14] This refers to results understood as changes in variables that exceed the achieved goals (construction of schools, material handed in, financing of college programs, etc.). The results are here interpreted as the specific changes in the life of the supposedly poor beneficiaries to which the aid was directed. It's the same as what the Glossary of the DAC (2004:24) defines by "impacts": "positive or negative long-term effects, either primary or secondary, which are produced by a direct or indirect aid intervention, intentionally or not".

social sectors including healthcare (Gomanee et al. 2005; Mosley et al 2004). None of these studies includes Equatorial Guinea in their samples. The most likely reason is, once again, the lack of data. With the few health indicators provided by the World Bank and the data on healthcare aid we can learn some interesting facts (Table 9). The data continuity period is 2002-2006. I have calculated aid per capita spent on healthcare in Equatorial Guinea based on the data of commitments provided by the DAC-CRS. Throughout the five years between 2002-2206 the expense on healthcare per inhabitant grew an accumulated rate of 24% (from 183 to 440 dollars), whereas the healthcare aid per capita of DAC donors grew 30.4% and Spanish aid 36.1%. Summarising, in per capita terms healthcare aid grows faster than national healthcare expense.

In GDP terms healthcare expense in Equatorial Guinea went from 4% in 2001 to 2.1 % in 2006 (which implies a cummulative 15% decrease). The *private* healthcare expense also decreased from 0.7% of the GDP to 0.4% (goes down -13.1%), and the *public* healthcare expense from 3.3% to 1.7% (decreasing -15.3%). Given the 2.9% population growth (from 5.2 to 5.8 million inhabitants) and the 45% growth in GDP thanks to the oil sales, it's easy to see why in Equatorial Guinea a growth in the national product doesn't lead to social spending on healthcare.

The absence of data doesn't let us know if the aid is fungible and diverts public healthcare expense to other areas. Anyhow, it's highly suspected to be so.

Regarding the healthcare results, the child mortality rates have *grown* from 120 to 123.6 for children under one year of age and from 200 to 206 for children smaller than five. These figures confirm that healthcare in Equatorial Guinea isn't adequately covered by the government and that aid may be acting as a 'replacement'. An evaluation is necessary, especially for Spanish cooperation, in order to think over these facts and continue (or not) to offer a more effective and truly result oriented aid, as we suggested for education.

Table 9. Health and Aid indicators in Equatorial Guinea.

	Per capita healthcare expense (current US$)	DAC's healthcare ODA per capita	Spanish healthcare ODA per capita	Per capita ODA to all sectors	% ODA/GNI	Private healthcare expense (% GDP)	Public healthcare expense (% GDP)	Public healthcare expense (% of Public Expense)	Public healthcare expense (% of Total Healthcare Expense)	Total healthcare expense (% GDP)	DAC Healthcare ODA, (mill current US$)	Spanish healthcare ODA (mill current US$)	GDP (million current US$)	TMI-1	TMI-5
2002	183	3.3	2.8	36.0	1.7	0.7	3.3	20.7	81.5	4.0	1.74	1.45	2141	120.0	200.0
2003	127	4.9	4.7	36.3	1.5	0.7	1.4	8.7	65.5	2.1	2.62	2.52	2952	..	..
2004	191	6.2	5.9	49.2	1.3	0.6	1.3	6.9	70.8	1.9	3.39	3.27	5241	..	..
2005	233	8.9	8.5	62.7	0.9	0.5	1.1	6.9	71.8	1.6	5.04	4.82	8217	123.0	205.0
2006	440	9.7	9.5	41.9	0.5	0.4	1.7	6.9	80.4	2.1	5.63	5.57	9603	123.6	206.0
Growth rate 2002-06	24.5%	30.4%	36.1%	3.9%	-26.4%	-13.1%	-15.3%	-24.0%	-0.3%	-14.9%	34.1%	40.0%	45.5%		

Source: World Bank (WDI) and OECD-DAC, CRS On line,

5. IMPROVEMENT SUGGESTIONS.

How can Spain assume an efficient leadership in external aid for Equatorial Guinea in the frame of the new progresses in aid effectiveness? The European General Agreement on development and aid effectiveness, the international division of donor labour, the budget support, donor coordination, transferred and triangular cooperation, South-South cooperation, emerging donors such as China, pose challenges to traditional aid. Internally, poverty and inequality (quantitatively unknown) are undeniable challenges, more so when the oil income is large enough to make the country's leader promise that by 2020 Equatorial Guinea will be a developed country (EPA 2009).

In this section we offer suggestions for the aid reform in line with the guidelines and commitments made by the international community in the Paris Declarations and Accra (OECD 2005, 2008).

The first step is to lucidly admit the faults of the present cooperation system. The indirect effects are clear, like the use that the regime and the main political party makes of funds and goods originally used for aid. The ODA that passes through the ministries, congress or 'official' entities feeds the dictatorship's regime and doesn't help the poor. Courses, scholarships or technical assistances -except for some- go to nguemists and the "Mongomo clan" because all of the State's administration is in hands of the dictator's party. Other ways of canalizing funds such as NGOs and churches, aren't free of the risk of maintaining the *status quo.* If education and healthcare is already carried out by Spanish cooperation, why take it as a public good? The moral dilemmas are very explicit in Equatorial Guinea because it seems as if decisions were always made according to the lesser evil (not leaving the poor population without healthcare and education, in exchange of intensifying the unjust political system and the lack of liberties). If our behaviour isn't 'diplomatic' we may lose projects or damage the existing ones. But then, we would be accepting the 'blackmail' of the use and sale of aid materials and the giving of scholarships to those who less need them (burocrats of the nguemist clan and their violent power circles). Equatorial Guinea is a perfect example of the complexity and difficulty of the external promotion of a human development that must be endogenous. How can we help a country that has leaders that aren't willing to enhance their population's liberties, opportunities and capacities?

That's what ODA is about, promoting transitions to greater stages of freedom (press, association, syndication, strike, opinion and public expression; to point out the most evident needs in Equatorial Guinea) and Human Rights fulfilment in inefficient institutional (and geographical) backgrounds.

Placing ourselves in a more likely situation and assuming that not cooperating is worse than cooperating (assumption that must be studied) we point out a few ideas to improve the current situation.

A first scenario to take into consideration is to fix a time limit after which there would be no more external aid sent, at least in the present quantities and instruments. President Obiang's own desire of being a developed country by 2020 could be a good limit. Ten more years of aid, and then 'graduation'. This scenario would enable a mid-term political dialogue where the commitments made by both parties would be revised after the first five years. The existence of a time limit could put some pressure on the government. They could adopt a true commitment to encourage human development in the guinean population and reallocate more efficiently the oil income to build and improve the basic social services. Ideally, the process must follow the principles of the

Paris Declaration. The political priorities should be expressed in a document that covered the strategy for poverty reduction. This document must include the expected results, the domestic investment commitments and the needs for aid in each sector in order to achieve these results. The elaboration of an MOU between the government and the donors (it seems reasonable for Spain to play the role of lead donor in this process) would gather the cooperation conditions for their monitoring and evaluation. The system of indicators and verification sources must be extremely precise and 'technical', given the political conditions of the country and the lack of transparency and accountability.

In case of not completing this results frame (in line with the spirit and letter of the III Director Plan of Spanish Cooperation 2009-2012) withdrawing from the country shouldn't be excluded. Plenty of donors have abandoned the *official* cooperation in countries where they had worked many years in pursuance of greater efficiency and concentration of geographic priorities (for example Sweden in Nicaragua and Honduras, see Schulz 2007, Puerto and Schulz 2009). The lessons learned in these experiences must be taken into account, especially the incapacity (or indifference) of other donors to assume responsibilities with the target population sustained by the 'leaving' donor. It appears to be clear that the consequences of the conditionalities must be undergone by the bad rulers and not by the poor population. However, the 'weak' conditionality that seems to be applied by Spanish cooperation (Prado Lallande 2010) shouldn't be seen as the most suitable option for Equatorial Guinea, unless there was a drastical change in the leading elite's orientation of liberties.

The possibility of Spain's leadership as lead donor fits perfectly in the setting of international donor labour division that the EU is performing. But the combination of diplomacy and high policy coherence should be the key principle of Spanish cooperation. Thanks to its volume, historical tradition and experience Spain could assume this role successfully. Coordination with American aid would be crucial, at least for two reasons. First of all, because the US is the country with greatest influence and economic interests in the area, and secondly, due to the experience that it's gaining through USAID as manager of the 'Social Fund' created by the guinean government to finance educational and healthcare projects and attain a better redistribution of the oil income.

The aid formula coordinated between donors and subject to a tight conditionality, could offer some results, but it's uncertain that the country would in fact accomplish the minimum standards of implementation of this tool. Observing the destination of the funds would have to be so strict that it's highly unlikely that the local government would accept it. In any case, Spain and the other donors should condition their aid to ex post results, in agreement with the Paris Declaration, the Action Agenda of Accra and the international *Aid Based-on-Results* or *Cash on Delivery* suggestions, which encourage aid to be delivered after reforms and achieved outcomes.

It's very important for donors to act in a harmonic and accorded way. It may happen that a program negotiated by a donor under the results conditionality can be used by another to obtain commercial benefits in the country. China's case, as a non-OECD donor, and therefore without the pressure of mutual monitoring within the DAC, is the best example to show the need of a collective accorded intervention in Equatorial Guinea.

The tools which appear to be more necessary for the aid's success before 2020 are three. In first place, budget planification and control. It's important to reduce the volatility of

aid, especially in sectors that need a bigger time frame to attain results (education, healthcare, water supply and sanitation among others). The Guinean government and all the cooperation organisms that operate in the country must carry out an agreed coordination, resulting from the uncertainty reduction generated by an annual budget. The coming up elaboration of the Country Plan (or Spain-Equatorial Guinea Association Framework Agreement) should reach this goal of stability and predictability.

Another step is to increase the mutual accountability. The Spanish cooperation commission of the Congress receives and analyzes thoroughly the cooperation in Equatorial Guinea. The monitoring of the Country Plan, along with the annual report of policy coherence (established in 2006 but never completed except for that year), would be the basic information documents for the Congress. The NGOs operating in the country should multiply their informative actions in the country, especially in terms of monitoring of results.

In third place, it seems inevitable to make a thorough evaluation of the cooperation in the country. Starting from this diagnosis of successes and errors of all the actions carried out up to the present, the setting up of a guideline along with specific sectoral goals and well constructed verification sources must enable a mid-term (2015) and final (2020) evaluation. This document will give the basis for deciding whether or not to continue with the aid, modify the strategy (partially or completely) or finish with official cooperation.

It's also necessary to analyze the role NGOs have played in the country. For many years the presence of "FERE" (Spanish Federation of the Religious Education) in education and of "FRS" (Healthcare Religious Federation) in healthcare has been continuous. Some mid-term evaluations have been recently carried out over the agreements made with AECID of both these catholic organizations and "Ayuda en Acción" (Action Aid). It would be advantageous if these evaluations lead to specific Improvement Plans and transparent monitoring. The publication of evaluation reports, executive summaries, and improvement plans, like those of EuropeAid or the Sweedish cooperation agency, is a specific action that could be implanted immediately. This would allow other independent organizations in Spain or Equatorial Guinea to keep track of the progress in cooperation. In both countries the population's unawareness of the operations and evaluations of the aid is quite large, and may work as a spur for a greater transparency and efficiency of results. There's a very likely hypothesis, reflected by the interviews made for this investigation, although not empirically contrasted, that needs to be taken seriously. It says that NGOs, particularly Spanish ones, are substituting responsibilities of the State and produce resource fungibility in public services like healthcare and education. A country that has become exponentially richer thanks to oil sale must offer basic public services even though tradition, inertia or post-colonial mentality has left that, up to now, in Spanish hands.

Equatorial Guinea can be an appropriate place to innovate with agents and tools. Universities (with solid reports on the country's sociopolitical and economical situation spread throughout Spain and Guinea), trade unions (which do not truly exist in Guinea), mass media firms and foundations (radios, TV programs, telephone, internet) can make a huge contribution to the development process. Frequently, we tend to think only in classical tools like health programs, water supply and sanitation, or education and other possibilities like all those related with securing the civil society of Guinea aren't taken into account. This could simply be done by providing the population with non-

manipulated information on their county's real situation. If cooperation doesn't reflect the social situation of a country it becomes an accomplice of this situation. That's why it's so difficult -and at the same time urgent- to take a new line of action in Equatorial Guinea. The next International Cooperation Framework Agreement must bravely face the challenge.

6. CONCLUSIONS.

The main findings of the study are that the ODA has been a hardly predictable, relatively stable, counter-cyclical flow and that it does have a stabilizing effect on Equatoguineans product. The FDI, on the other hand is much more volatile and pro-cyclical, although it shares the stabilizing effect of the ODA. For every million dollars of the FDI, GDP grew 0.1%. Development aid, on the contrary, doesn't have a statistically significant impact if we consider the time period 1985-2006. But it does in 1985-1995. Every additional million dollars of ODA made the GDP grow 1.3% in that period.

Spain ought to lucidly admit the faults of the present cooperation system. The combination of diplomacy and high policy coherence should be the key principle of Spanish cooperation. The next International Cooperation Framework Agreement should fixed a deadline (the last goal of development cooperation is abandon a country due to its progress) and a results-based conditionality. Mutual impact indicators must be established and a "cash-on-delivery" model should be used as a dynamic structure of incentives.

An in-depth evaluation of the Development Cooperation system and recent on-going evaluations of the Spanish NGOs and AECID agreements can shed valuable light for improvements. Innovation should be the "lemma" for new agents and instruments. The study has showed that "business as usual" should not be sustainable if human development and poverty reduction are the true goals of donors foreign aid.

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